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## **Evaluating COVID-19 Impact: Effective Bookkeeping Practices**

Your accounting system is your primary tool for capturing and reporting the financial dimension of everything that happens within your organization. This tip sheet will help you consider changes to the structure of your books to enable clear and accurate reporting on the impact of COVID-19. Our view, grounded in accounting principle, is that the permanent account categories should be minimally altered, and that you can achieve your temporary reporting needs through alternatives like “classes” (explained below).

Note that we use QuickBooks as the basis for illustrations; that’s where the term “class” comes from. We endeavour to explain in a way that will work for other accounting apps too.

Need help? Contact us at [info@youngassociates.ca](mailto:info@youngassociates.ca).

For those who’d rather DIY, here’s how.

### **The audiences for your accounting reports**

It’s useful to think of writing for an audience – or, more commonly, multiple audiences. The readers of your financial statements (staff, board, third parties) make decisions: developing internal strategy, passing a budget revision, awarding a grant, renewing a membership, etc. What information might each stakeholder require, and at what level of detail?

Review the existing account categories in your books. Are they sufficient for the array of COVID-19 related reporting you anticipate?

It is likely you will need some additional categorization. The following tips will help you achieve your COVID-19 reporting needs efficiently.

### **Our recommendations**

Minimize changes to your chart of accounts.

Utilize reporting by class and other bookkeeping subdivisions to produce COVID-19 impact reports.

## Good housekeeping

Skilled bookkeepers think about short- and long-term reporting requirements, bearing in mind the importance of year over year **comparability**. They have an eye to the **relevance** of accounting information, and its usefulness in providing **feedback** (e.g. on the impact of change) and in supporting **forecasts** of future activity.

We know that COVID-19 reporting will be required in the short-term. No one knows yet what the long-term ramifications may be. We favour a conservative approach to adding account categories.

A good rule of thumb is to add categories that will contain at least 0.5% of your expenses. Thus, for a company with a budget of \$1,000,000, the smallest expense lines would contain at least \$5,000. Same applies to revenues.

## Account categories and financial statements

The account is the basic unit of categorization in your books. When your bookkeeper produces a balance sheet and operating statement (also known as income statement or P&L) from your books, you're seeing the account categories. One account = one line on the financial statements.

## Suggestions for new COVID-19 related accounts

**Revenues:** The federal wage subsidy may merit its own account, as a unique revenue source, or you might bookkeep it to an existing "Federal – Other" account. Consider any new sources of revenue that might arise from your pandemic response.

**Expenses:** Same concept. A new category of spending may merit its own account.

**Contra accounts:** A contra account has the opposite balance to the normal account. For instance, an organization issuing COVID-related refunds might add a contra-revenue account to capture the refunds. That way, the statements would show 100% of the initial revenue and 100% of the refund, thereby clearly demonstrating the impact of COVID-19.

**Balance sheet accounts:** New cash accounts, lines of credit and other loans require separate accounts. If you are creating a new fund related to COVID-19 (e.g. a relief fund) you may need a separate net assets account to segregate it properly.

## Accounting by nature & by function

Accounting recognizes two broad approaches to revenue and expense information: by nature (what it is; also known as natural category) and by function (what it's used for; for instance, events, projects, activities, programs, shows, etc.).

Well-structured books maintain clarity on this point. Make sure that your COVID-19 additions are consistent with your organization's established practice.

By nature – A gallery might have accounts for Artist Fees, Installation and Marketing

By function – Alternatively, the gallery might create a new expense account for each exhibition. The account would be named for the exhibition, and would capture all associated costs (artist fees, installation, marketing, etc.) in a blended account. We would *never* advocate for this! (Although we've seen it...) We would always recommend using classes - read on!

## Additional categorization within accounting software

Accounting apps offer additional ways of aggregating financial detail which may track impact more effectively than new accounts.

Each software package has its own proprietary features – but conceptually many of these features are alike. We'll use QuickBooks as an example.

Classes – Allow you to subdivide accounts by activity, program, event or show. A theatre company might have accounts for Actors, Sets, Advertising and Theatre Rent. These accounts would capture the total spent on each category, but wouldn't help anyone understand what was spent on each show. By creating a class for each show, and then tagging each entry with a class, the bookkeeper can run a P&L by Class report to produce a statement for each show.

Projects (QuickBooks Online) or Jobs (QuickBooks Desktop) – Allow you to track items by funder. A project (or job) has only one revenue source. In the business world this would be a customer – and in the nonprofit world, a funder. By tagging each entry with a project, the bookkeeper can run a P&L by Customer report to produce a statement for each project.

Departments – Allow you to subdivide accounts by department. Everyone in (say) Marketing, Fundraising, Production and Admin needs office supplies, and each department incurs meeting, travel and other common expenses. By tagging each entry with a department, the bookkeeper can run a P&L by Department report so management can evaluate activity by department.

Locations – Allow you to subdivide accounts for different physical locations. An organization with two offices might run the same programs and have the same departments in both offices. By tagging each entry with a location, the bookkeeper can run a P&L by Location report to produce a statement for each location.

Before you jump in to change the structure of your books, pause for a moment and consider how these options might help you generate the COVID-19 impact reports you will need for your funders, members, donors and other parties – as well as for your own management decision-making.

## Suggestions for new COVID-19 related classes

A general COVID-19 related class: Tag all pandemic-related revenues and expenses to this class.

Sub-classes for projects: You might have a class called “New Play #1” which already contains development and pre-production costs. If New Play #1 has been cancelled, you might create a class called “COVID – New Play #1” to capture costs associated with the cancellation. QuickBooks can roll up the sub-class into the class report to give you a grand total for New Play #1.

Sub-classes for COVID: Alternately, you might attach sub-classes to your general COVID-19 class. Any impacts related to overhead would be booked to the general COVID-19 class. You would create sub-classes for each project, event or activity. QuickBooks can roll up the sub-classes into the class report to give you a grand total for COVID-19 impact.

Naming: Start each new class title with “COVID” to make it easy to identify and roll up class reports.

## How [Young Associates](http://www.youngassociates.ca) can assist

A consultation with us may make all the difference to your comfort level and confidence that your accounting system is up to the challenge of the pandemic.

We can help you identify the stakeholders who will need reporting; prepare to meet their reporting needs; and advise on practical and appropriate changes to the structure of your books.

We’d also be happy to give you [a quote for full-service bookkeeping](#).

We work on the basis of fixed price agreements, so you’ll know upfront how much our work will cost – and we always offer a money-back guarantee: if you’re not completely delighted with our service, we will, at your option, either refund the price, or accept a portion of said price that reflects your level of satisfaction.

Contact us: [info@youngassociates.ca](mailto:info@youngassociates.ca)

*This tip sheet was created by Heather Young CPB and the Young Associates team based on the best information available as of the date of posting. We are happy to receive your comments at [info@youngassociates.ca](mailto:info@youngassociates.ca).*

*The contents of this tip sheet comprise Young Associates' views. They do not constitute legal or other professional advice. You should consult your professional advisor for advice relevant to your situation.*

*Founded in 1993, Young Associates provides bookkeeping and financial management services in the charitable sector, with a focus on arts and culture. Young Associates also provides consulting services in the areas of data management, business planning and strategic planning. Heather Young published [Finance for the Arts in Canada \(2005, 2020\)](#), a textbook and self-study guide on accounting and financial management for not-for-profit arts organizations.*